B5 350-52 6/27/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 27, 1983 VOLUME XX, NUMBER 26

As The Economy Heats Up . . .

Of all the favorable economic news reported in recent weeks, one of the brightest pieces was the so-called "flash" estimate of second quarter, real gross national product growth. According to the Commerce Department, the inflation-adjusted GNP expanded at a hefty 6.6 per cent seasonally adjusted annual rate in the second quarter, the fastest quarterly rate of rise since the first quarter of 1981. But while this report does indeed seem to confirm the wide variety of signs that the pace of recovery is much stronger than originally anticipated, it also does something else: it raises the disturbing possibility that private credit demands will revive strongly as well. With the process of inventory liquidation almost over, restocking about to begin and households returning to the credit markets, it may only be a matter of time before the upturn in private borrowings clashes head-on with Washington's enormous credit appetite.

To be sure, the rise in the overall GNP does provide a substantial fillip to a recession-weary economy, not to mention the Administration. The recent gains in automobile sales, housing starts and non-auto retail sales all suggest that final sales posted a healthy rise in the second quarter. But, by far, the largest chunk of the overall gain apparently stemmed from the virtual cessation of inventory liquidation. With consumers finally loosening their purse strings and stepping up spending, many businessmen apparently believe that this recovery is for real, and are no longer satisfying demand by simply drawing down stocks. Rather, they are doing just the opposite—increasing production to meet growing demand, as well as rebuild inventories. Whereas businesses liquidated inventories at an inflation-adjusted $16 billion annual rate in the first quarter of 1983, they may have actually added to them slightly in the current quarter. This big swing in inventories alone added at least four full percentage points to the second quarter's real GNP growth rate.

And herein lies the rub. For if businessmen now think that the recovery will not only persist, but turn out to be much stronger than anticipated, a period of aggressive stock rebuilding may well lie ahead. If it does, it appears a good bet that business credit needs for at least working capital purposes will also bounce back. And, with consumer confidence brightening, households can be expected to step up their spending on such big-ticket items as housing and automobiles—largely bought on credit. However, it has been the soft pace of private borrowings to date, together with a generally accommodative Federal Reserve monetary policy, which has calmed the often turbulent financial markets in recent months and, in so doing, enabled the Treasury to finance its borrowing needs without generating strong upward pressures on interest rates.

TOTAL FUNDS RAISED IN THE CREDIT MARKETS IN CYCLICAL PERSPECTIVE

(as a percentage share of GNP during first year of recovery)

First Recovery Year	Total	Federal and Related	State & Local Governments	Private
May 54–May 55	9.3	0.4	1.4	7.4
Apr 58–Apr 59	10.9	2.0	1.2	7.6
Feb 61–Feb 62	10.3	2.2	1.1	7.0
Nov 70–Nov 71	14.3	2.9	1.6	9.8
Mar 75–Mar 76	15.1	6.3	1.0	7.8
Jul 80–Jul 81	18.7	4.7	0.8	13.2
AVERAGE	13.1	3.1	1.2	8.8
Jan 83–Mar 83	16.7	7.9	1.7	7.2

. . . Total Credit Demands . . .

Take, for example, the first quarter numbers on economy-wide credit demands. With households still

DIGEST GOES BIWEEKLY

The weekly Financial Digest will be published biweekly during July and August. The next issue will be dated July 11.

Copyright 1983
Manufacturers Hanover Trust Company
270 Park Avenue, New York, N.Y. 10017

cautious, and business cash flow exceeding capital outlays for new plant, equipment and inventories, private credit needs remained soggy during the January-March quarter. They ran at a $227 billion seasonally adjusted annual rate during the period—13 per cent below first quarter 1982 levels. Unfortunately, the interest rate dampening effects that could normally have been expected to arise from all this were almost entirely dissipated by stepped-up Federal, state and local government borrowings.

With the Federal government's "on-budget" deficit alone running at a $221 billion annual rate through the first eight months of fiscal year 1983, and state and local governments caught in a financial squeeze caused by lower tax collections due to recession, diminished Federal assistance and still rising expenses, it is hardly surprising that any slack in the debt markets was largely offset by stepped-up government borrowings. Federal and Federal-related borrowings in the first quarter ran a sizable 72 per cent higher than same period, 1982 levels while state and local government borrowings just about doubled compared with the level of a year earlier. Putting these numbers together, total credit demands in the first quarter advanced 22 per cent year-over-year, expanding at a $530 billion seasonally adjusted annual rate.

. . . Could Boil Over

When these numbers are placed in cyclical perspective and compared with the size of GNP, prospects for extended financial market stability, and lower interest rates, fade even further. For, as shown in the table on the first page, the volume of total

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/15/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	149.814	+ .366	+ 9.394
Loans to Depository Inst.	1.812	+ .906	+ .883
Float	1.514	– .589	– .574
Total Reserve Bank Credit	161.378	+ .910	+ 9.283
Treasury Deposits with Federal Reserve Banks	3.131	+ .483	+ .181
Currency Outside Banks	142.730	+ .061	+11.244
Member Bank Reserves:			
Required	37.591	+ .560	– 1.761
Excess (Deficiency)	.364	– .293	+ .125
Total Reserves Held	37.955	+ .267	– 1.636
Net Borrowed Reserves	.242	+ .553	– .123
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.228	+ .083	+15.531
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	511.3	+ 12.3‡	+ 12.5‡
M2 (May '83)	2,097.2	+ 9.1	+ 13.3
M3 (May '83)	2,477.3	+ 7.7	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 6/24/83			
‡U.S. Treasury Bills	8.45%	8.60%	8.65%
* Federal Agencies	8.38	9.02	9.69
* Project Notes—Taxfree (46% Taxable Equivalent)	8.52	8.98	10.74
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.40	9.63	10.15

‡Finance Company Paper—Prime

5- 14 days	8.75%
15- 29 days	9.25
30- 59 days	9.13
60- 89 days	9.00
90-179 days	9.00
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances

Jul.	9.15%
Aug.	9.15
Sep.	9.15
Oct.	9.20
Nov.	9.25
Dec.	9.15

‡Industrial Paper—Prime

30- 89 days	9.13%
90-120 days	9.10

†Federal Funds Effective Rate 9.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171r	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,487r	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.6r	– 1.1	– 5.1
Change in Consumer Prices (new series)*	May '83n	6.0%	7.2%	12.0%
Change in Producer Prices*	May '83	3.6%	– 1.2%	0.0%
Civilian Employment (Thousands of Persons)†	May '83	99,557	99,458	99,994
Unemployment as % of Civilian Labor Force†	May '83	10.1%	10.2%	9.4%
Personal Income*	May '83n	$ 2,711	$ 2,679	$ 2,556
Leading Indicators Composite Index (1967=100)†	Apr '83	152.4	150.7	136.0
Industrial Production Index (1967=100) †	May '83	144.3	142.7	139.2
Net Change in Consumer Installment Credit†	Apr '83	$ 2.27	$ 2.58	$ 1.62
U.S. Merchandise Trade Balance †	Apr '83	–$ 4.60	–$ 3.63	–$ 0.50
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	May '83	1,791	1,504	1,028
New Construction Expenditures*	Apr '83	$ 248.0	$ 246.9	$ 226.1
Total Business Inventories †	Apr '83	$ 505.6	$ 503.2	$ 523.4
Total Business Sales †	Apr '83	$ 350.6	$ 348.0	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

funds raised in the credit markets during the first quarter of 1983 was equivalent to 16.7 per cent of GNP.

If this proportion persists for the entire year, it would be larger than that posted during the first year of recovery from five of the six preceding postwar recessions—and almost one-third higher than the preceding six-recovery average. The only first-year recovery period in which the funds raised-to-GNP share was higher was in 1980-81, when soaring funds demands pushed interest rates sharply higher within just a few short months.

But will a repetition of the 1980-81 behavior of interest rates actually occur? Not necessarily—but only if the pace of recovery, and private credit demands, remains subdued. For if private borrowings do indeed swell at a rate at or near their first recovery year average of 9.5 per cent, and Federal, state and local borrowings do not drop, total funds raised in the credit markets will easily surpass $550 billion this year—a record dollar level, equivalent to about 17 per cent of GNP. But, rather than restraining the private sector, a much better solution would be to throttle back Federal borrowings. If Federal borrowings in 1983's first quarter had been equivalent to the same share of GNP as prevailed during the preceding six-recovery average, the ratio of funds raised to GNP would have stood below 12 per cent—the smallest share during the first year of a recovery since the early 1960s. At this level, credit demands would undoubtedly be prompting lower, rather than higher, interest rates.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/8/83)	94,947	+ 677	–41,416
New York City (6/8/83)	22,751	– 347	–10,744
Commercial Paper (6/8/83)	170,915	+ 1,528	– 6,279*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/8/83)	212,653	– 1,773	+ 2,297
New York City (6/8/83)	56,875	– 1,178	– 2,338

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/8/83)	501,744	– 3,314	+12,908
New York City (6/8/83)	115,166	– 2,779	+ 2,469

Financial Markets

	Friday 6/24/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.32%	+ .22	– 4.28
180-Day Bills†	9.59	+ .19	– 4.69
Longest Bills†	9.81	+ .16	– 4.65
Recent Issues:			
10s 6/30/85 (When Issued)	10.35	+ .20	
10½s 6/30/87 (When Issued)	10.57	NA	
10⅛s 5/15/93	10.96	+ .21	
10⅜s 11/15/12	11.01	+ .23	
Municipals:			
Bond Buyer–20 Bond Index* (6/23/83)	9.38%	0.00	– 3.24
Blue List Total ($ Million)	$1,104	+ $102	+ $ 133
30-Day Visible Supply ($ Million)	$1,092	– $192	– $1,184
Total	$2,196	– $ 90	– $1,051
Corporates:			
Moody's Aa Composite (6/23/83)	12.11%	+ .03	– 3.48
30-Day Visible Supply ($ Million)	$ 777	+$ 102	– $ 588
Stocks:			
Dow-Jones Averages:			
Industrials	1,241.69	– .50	+ 438.61
Transportation	589.29	+ 8.17	+ 273.94
Utilities	128.41	– .65	+ 21.84
65 Stocks	494.73	+ 1.74	+ 182.00
Standard and Poor's 500 Stocks	170.40	+ 1.27	+ 61.26
N.Y.S.E. Composite Index	98.82	+ .82	+ 36.10
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,590	– 6,542	+ 40,854

* 46% Texable equivalent 17.37%.

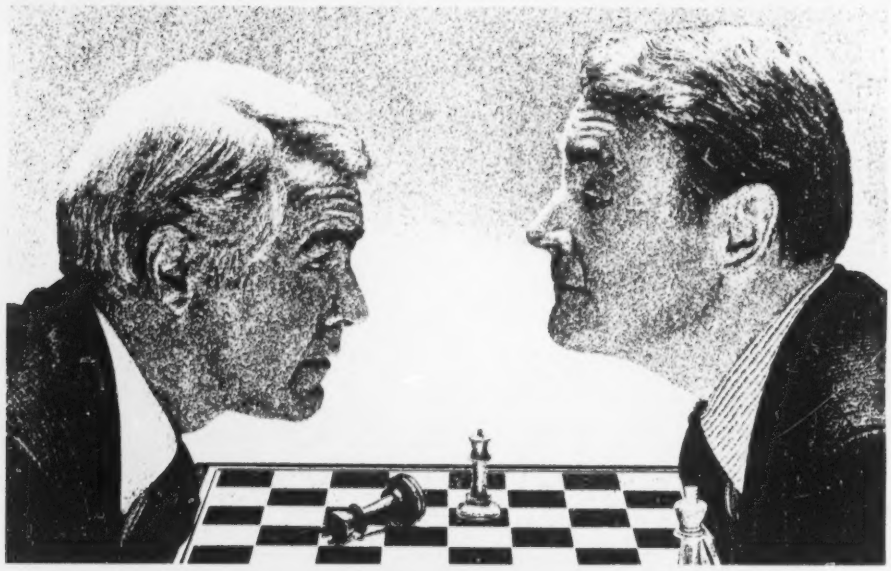
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/24/83	Week Ago
Overnight	9.13%	9.00%
1 month	9.63	9.38
3 month	9.69	9.56
6 month	9.94	9.75
1 year	10.13	10.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.30%
Long Term (7 to 15 yrs.)	11.45	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/24/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01980	50.51
Canada	.8123	1.2311
Denmark	.1104	9.0605
France	.1316	7.5965
Germany	.3960	2.5252
Italy	.0006680	1496.80
Japan	.004204	237.88
Mexico	.006711	149.00
Netherlands	.3537	2.8270
Switzerland	.4792	2.0868
U.K.	1.5462	.6467



Winning in the stock transfer business is a matter of commitment.

In a business that demands as many resources as stock transfer, there can be no such thing as a half-hearted commitment. As an industry leader, Manufacturers Hanover understands this well.

But do you know what puts our approach to stock transfer in a class by itself? Do you know that our officers are leaders in the industry? Do you know how much our experience can help you cope with all the details of your business?

Read on.

TRANSIFAC® has no competition. Period.

First, there's TRANSIFAC. The system that does everything our competitors' systems do—and a lot of things theirs can't.

It has "key verification." A feature that helps ensure transfer data is entered accurately.

TRANSIFAC also allows the immediate on-line up-date of shareholder records. We even pioneered the use of computer-to-computer transfers with the Depository Trust Company. As well as direct mailings of certificates to the broker's customer—your shareholder.

In short, TRANSIFAC has so many advantages, we can't list them all here.

A reputation built on dedication.

We also know how important people are in the stock transfer business. And our organization reflects it. You're assigned an account administrator to handle everyday matters. Plus a back-up team. So you'll never be left in the dark.

These are the strengths and capabilities that allow us to work for over 400 corporations. But you'd expect them from a stock transfer agent generally acknowledged to be the best there is. And it's all part of our commitment to be even better. Because when you understand the importance of stock transfer to customers and their shareholders, you have no choice.

See why Manufacturers Hanover is an industry leader. And see how the combination of TRANSIFAC and our people's experience can work for you every day, year in and year out. Just contact Kevin Kelly, Vice President, Manufacturers Hanover, 600 Fifth Avenue, New York, NY 10020. Telephone: (212) 957-0986.

MANUFACTURERS HANOVER

The Manufacturers Hanover
Financial Digest

Bank Window, Church St. Station
New York, New York 10015